

AR21

SKLAR

MANUFACTURING

LIMITED

1979
ANNUAL
REPORT

President's Report to Shareholders

1979 was another year of progress for the Company. Sales were 14.9% higher than in 1978, and earnings before income taxes and extraordinary income increased 51.7%. The extraordinary gain of \$1,253,000, shown on the Consolidated Statement of Earnings, represents a reduction of income taxes as a result of losses suffered in prior years and, as of December 31st, 1979, the balance of potential tax recoveries due to these losses is \$1,150,000.

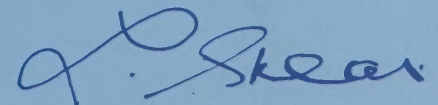
The improved performance of the Company has brought about a further improvement in its cash position, and this has permitted us to prepay \$1.6 million of high interest bearing, long term debt. The remaining \$10 million of long term debt is covered by the Income Debenture which, at present, attracts a relatively low interest rate. The cost of this loan is related to the bank's prime rate, and as of the date of this report, the average carrying cost is 9-1/4% per annum. Although the interest paid on this Income Debenture is not deductible for tax purposes, the saving in cash resulting from this low servicing cost is a significant benefit to our Company. This saving will continue until the Company resumes paying income taxes.

Our industry is entering a period of new and exciting challenges. High interest rates, energy shortages, and inflation will lead to changes in the lifestyle of North Americans. More leisure time and social activities will be focused on the home. The appearance, comfort and indeed, the total atmosphere of the home, therefore, will become increasingly more important to Canadians. While furniture buying budgets will continue to be a factor in their purchasing decisions, consumers will be prepared to spend a greater portion of their disposable incomes on creating home environments that express their individual concepts of how they want to live. Consumers will become more knowledgeable and demanding in their product selection. They will be searching for value in the total, broad sense of the word as it applies to our industry. Fashion, comfort, and quality will take on more importance. Price, although a factor, will become a lesser priority. There is clear evidence in the marketplace that these changes are now underway. We believe that, notwithstanding problems of the Canadian economy, the segment of our industry that adjusts successfully to these changes in attitudes and lifestyles will prosper.

Our Company is in the unique position to respond effectively to these new challenges. It is true that we recently passed through a financial crisis, but throughout the period of difficulty, the Company at all times maintained, and indeed enlarged upon, its position as the fashion leader of our industry. Our quality performance is acknowledged to be equal to the best in North America. Our production facilities are continually raising their levels of efficiency. Our network of customers, the furniture retail merchants of Canada, now include most of the strongest and progressive retail organizations in every market area across the country. These are the competitive strengths that will enable our Company to offer consumers the real value that should ensure continuing profitable growth.

One of the Company's shortcomings of the past has been the inadequate effort to tell Canadians about "Sklar-Peppler", the trade name under which we market most of our products. We have an important fashion and value story to tell, but we have not told it. The fact that Sklar-Peppler has, nevertheless, become a brand name is, in itself, a meaningful indication of our market potential. Commencing in 1980, we will begin to tell consumers about the Company and its products. This will be done by communicating directly to the furniture buying public and, equally important, by assisting the retail merchants to do so in an effective manner. These efforts will play a significant role in our future activities because they will result in higher public awareness of the name Sklar-Peppler and what it represents.

We anticipate relatively poor economic performance in North America for at least the next few years. Consequently, we are building an element of caution into all of our planning. However, notwithstanding the general concern with regard to the economic prospects, for the reasons briefly outlined in this message, we believe that our Company will continue to prosper.



Louis Sklar,
President

February 29, 1980

Consolidated Nine-Year Summary

	1979	1978	1977
OPERATIONS			
Net Sales (excluding discontinued operations)	\$59,634,000	\$51,907,000	\$47,401,000
Earnings (loss) before taxes and extraordinary items	2,677,000	1,765,000	(3,458,000)
Earnings (loss) before extraordinary items	1,424,000	950,000	(3,355,000)
Net earnings (loss)	2,677,000	1,879,000	(4,434,000)
CAPITAL EXPENDITURES			
(Before deducting Government grants)	379,000	245,000	198,000
FINANCIAL POSITION			
Working capital	12,117,000	11,026,000	3,337,000
Current ratio	3.22:1	2.84:1	1.20:1
Fixed assets (net)	3,198,000	3,258,000	6,474,000
Total assets	21,885,000	21,436,000	26,338,000
Long term debt	10,000,000	11,700,000	7,952,000
Shareholders' equity	6,415,000	3,738,000	1,859,000
PER COMMON SHARE			
Basic net earnings (loss) before extraordinary items	0.59	0.40	(1.40)
Basic net earnings (loss)	1.11	0.78	(1.85)
Shareholders' equity	2.67	1.56	0.77
OTHER STATISTICS			
Approximate number of shareholders	1,500	1,900	2,100
Common shares outstanding at year end	2,402,969	2,402,969	2,402,969

Directors

*DOUGLAS R. ANNETT
Don Mills, Ontario
President, Annett Partners Limited

*ALLAN L. BEATTIE, Q.C.
Toronto, Ontario
Managing Partner, Osler, Hoskin & Harcourt

PAUL A. BIENVENU
Montreal, Quebec
President, Howard Bienvenu Inc.

PAUL F. BLACK
Toronto, Ontario
President, Black, Galper & Heessels Limited

EDWIN T. COHEN
Willowdale, Ontario
Managing Director, ECO Markets Research
and Advisory Associates Ltd.

JOSEPH SKLAR
Toronto, Ontario
Senior Vice-President,
Sklar Manufacturing Limited

*LOUIS SKLAR
Oshawa, Ontario
President,
Sklar Manufacturing Limited

SAMUEL SKLAR
Toronto, Ontario
Chairman of the Board,
Sklar Manufacturing Limited

JACK B. WHITELEY
Oakville, Ontario
President, Crown Trust Company

SKLAR

MANUFACTURING LIMITED

1976	1975	1974	1973	1972	1971
\$47,082,000	\$41,404,000	\$43,429,000	\$38,116,000	\$28,213,000	\$19,753,000
(692,000)	(4,025,000)	1,093,000	4,276,000	3,071,000	949,000
(770,000)	(2,781,000)	385,000	2,377,000	1,597,000	462,000
26,000	(2,781,000)	385,000	2,377,000	1,770,000	640,000
480,000	2,322,000	3,414,000	1,405,000	1,458,000	472,000
8,042,000	4,026,000	7,382,000	6,630,000	4,302,000	3,394,000
1.52:1	1.26:1	1.49:1	1.69:1	1.56:1	1.72:1
7,131,000	7,935,000	6,806,000	4,436,000	3,923,000	2,964,000
30,747,000	27,765,000	29,153,000	20,621,000	15,891,000	11,064,000
8,973,000	5,885,000	4,291,000	1,943,000	1,868,000	3,110,000
6,293,000	6,149,000	8,930,000	8,537,000	5,997,000	3,065,000
(0.32)	(1.16)	0.16	1.02	0.72	0.25
0.01	(1.16)	0.16	1.02	0.79	0.35
2.62	2.56	3.72	3.56	2.59	1.67
2,150	1,900	1,900	1,900	1,700	1,800
2,402,969	2,402,969	2,402,969	2,399,810	2,318,754	1,835,741

Officers

SAMUEL SKLAR
Chairman of the Board
LOUIS SKLAR, B.A.Sc.,
President
JOSEPH SKLAR
Senior Vice-President
R.E.G. WILSON B.Comm., C.A.,
Vice-President, Finance
and Secretary-Treasurer
J.E.R. DEMERS, R.I.A.,
Assistant Treasurer

Head Office

617 Victoria Street East,
Whitby, Ontario L1N 5S7
Telephone 416/668-3315

Plants

Whitby, Ontario
Weston, Ontario
Hanover, Ontario
Southampton, Ontario

Showrooms

Downsview, Ontario
Montreal, Quebec

Transfer Agent and Registrar

Montreal Trust Company
Toronto and Montreal

Bankers

The Royal Bank of Canada

Auditors

Soberman, Isenbaum & Colomby

Stock Listing

Toronto Stock Exchange
(SKM)

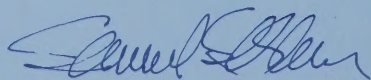
Consolidated Balance Sheet

AS AT DECEMBER 31, 1979 (with comparative figures for 1978)

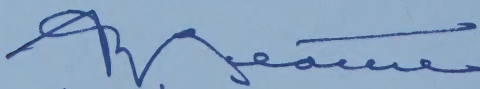
Assets

	1979	1978
Current		
Cash and short-term deposits	\$3,196,000	\$ —
Accounts receivable	5,959,000	8,869,000
Inventories	8,259,000	7,995,000
Prepaid expenses	173,000	160,000
	<u>17,587,000</u>	<u>17,024,000</u>
Debenture receivable (note 3)	<u>1,100,000</u>	<u>1,154,000</u>
Fixed-at cost		
Land	62,000	62,000
Buildings and leasehold improvements	3,727,000	3,565,000
Machinery and equipment	4,923,000	4,791,000
	<u>8,712,000</u>	<u>8,418,000</u>
Less: accumulated depreciation	<u>5,514,000</u>	<u>5,160,000</u>
	<u>3,198,000</u>	<u>3,258,000</u>
	<u>\$21,885,000</u>	<u>\$21,436,000</u>

Approved on behalf of the Board



Director



Director

SKLAR

MANUFACTURING LIMITED

(Incorporated under the laws of Ontario)

Liabilities

Current

Bank indebtedness	\$ —	\$1,289,000
Accounts payable and accrued charges	4,740,000	3,952,000
Sales and other taxes payable	730,000	705,000
Long term debt due within one year	—	52,000
	<u>5,470,000</u>	<u>5,998,000</u>

Long term debt (note 4)

	<u>10,000,000</u>	<u>11,700,000</u>
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Shareholders' equity

Capital stock (note 5)		
Authorized		
3,500,000 common shares without par value		
Issued		
2,402,969 shares	7,491,000	7,491,000
Deficit	(1,076,000)	(3,753,000)
	<u>6,415,000</u>	<u>3,738,000</u>
	<u>\$21,885,000</u>	<u>\$21,436,000</u>

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Sklar Manufacturing Limited

We have examined the consolidated balance sheet of Sklar Manufacturing Limited as at December 31, 1979 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of

its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SOBERMAN ISENBAUM & COLOMBY
Chartered Accountants

Toronto, Canada
February 22, 1980

Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1979 (with comparative figures for 1978)

	1979	1978
Net sales	\$59,634,000	\$51,907,000
Operating costs and expenses		
Cost of goods sold	47,137,000	41,127,000
Marketing, general and administrative	8,104,000	6,989,000
Depreciation	421,000	407,000
Interest		
Long term debt	1,295,000	1,274,000
Other	—	345,000
	<u>56,957,000</u>	<u>50,142,000</u>
Earnings before income taxes and extraordinary income	2,677,000	1,765,000
Income taxes (note 6)	<u>1,253,000</u>	<u>815,000</u>
Earnings before extraordinary income	1,424,000	950,000
Extraordinary income (note 7)	<u>1,253,000</u>	<u>929,000</u>
Net earnings	<u>\$2,677,000</u>	<u>\$1,879,000</u>
Basic earnings per share (note 5)		
Before extraordinary income	\$.59	\$.40
Net earnings	\$ 1.11	\$.78

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Deficit

FOR THE YEAR ENDED DECEMBER 31, 1979 (with comparative figures for 1978)

	1979	1978
Deficit, beginning of year	\$(3,753,000)	\$(5,632,000)
Net earnings	<u>2,677,000</u>	<u>1,879,000</u>
Deficit, end of year	<u>\$(1,076,000)</u>	<u>\$(3,753,000)</u>

(See accompanying notes to consolidated financial statements)

SKLAR

MANUFACTURING LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1979 (with comparative figures for 1978)

	1979	1978
SOURCE OF FUNDS		
Earnings before extraordinary income	\$1,424,000	\$950,000
Add charges (deduct credits) not involving funds		
Depreciation	421,000	407,000
Loss on disposal of fixed assets	18,000	54,000
Other	—	(54,000)
Funds provided by operations	1,863,000	1,357,000
Reduction in current income taxes as a result of loss carry forward	1,253,000	815,000
Reduction in debenture receivable	54,000	—
Conversion of current bank indebtedness to long term debt	—	3,800,000
Sale of fixed assets of Forest Products division (net of debenture receivable of \$1,100,000)	—	1,900,000
Reduction of loss on disposal of Forest Products division	—	114,000
	<u>\$3,170,000</u>	<u>\$7,986,000</u>
APPLICATION OF FUNDS		
Additions to fixed assets - net	379,000	245,000
Repayment of long term debt	1,700,000	52,000
	<u>2,079,000</u>	<u>297,000</u>
Increase in working capital	1,091,000	7,689,000
Working capital, beginning of year	11,026,000	3,337,000
Working capital, end of year	<u>\$12,117,000</u>	<u>\$11,026,000</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements DECEMBER 31, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

b) Translation of foreign currencies

Current assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end exchange rates. The exchange adjustment arising from such translation has been reflected in earnings.

c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

d) Depreciation

Depreciation is provided in the accounts on the straight line method over the estimated useful lives of the fixed assets as follows:

Buildings	—	20-40 years
Leasehold improvements	—	over the unexpired terms of the leases
Machinery and equipment	—	10 years

e) Pensions

Substantially all of the Company's employees are covered by Company pension plans as well as by compulsory government plans. The unfunded past service obligation is being amortized annually to 1989.

f) Leases

The Company's leases qualify as operating leases and accordingly all rental payments are expensed as incurred.

2. INVENTORIES

	1979	1978
Raw materials	\$4,145,000	\$3,872,000
Work in progress	2,623,000	2,273,000
Finished goods	1,491,000	1,850,000
	<u>\$8,259,000</u>	<u>\$7,995,000</u>

3. DEBENTURE RECEIVABLE

This arose on the disposal of the Forest Products division in 1978. It is secured by a debenture on the assets sold and interest is payable at prime plus 1%. The principal is payable as follows:

1981	\$300,000
1982	100,000
1983	100,000
1984	100,000
1985	500,000

4. LONG TERM DEBT

	1979	1978
Bank income debenture at an average of approximately 1-3/4% above one half of the lender's prime rate	\$10,000,000	\$ —
Bank term loans at an average of approximately 1-3/4% above the lender's prime rate	—	10,000,000
Converted into an income debenture on May 28, 1979	—	1,700,000
Prepaid during 1979 (b)	<u>\$10,000,000</u>	<u>\$11,700,000</u>

a) Conversion

The bank term loans were converted into an income debenture with no changes in terms and conditions except for the interest rate. Either party has the option to convert back to bank term loans with interest at 1-3/4% above the lender's prime rate. The interest on the income debenture is non-deductible for income tax purposes.

b) Payments

A prepayment of \$1,600,000 made on January 17, 1980 has been reflected in these financial statements as agreement in principal for the prepayment had been reached by December 31, 1979.

Payments required to retire long term debt are as follows:

1980	\$ —
1981	1,200,000
1982	1,600,000
1983	1,600,000
1984	1,600,000
1985	4,000,000

c) Security

The long term debt is secured by accounts receivable, inventories and the debenture receivable as well as a fixed and floating charge debenture on all other assets.

d) Restrictions

The restrictions relating to the long term debt require the Company to maintain working capital of \$4,000,000 and shareholder's equity of \$1,500,000. There are also limitations on the purchase of fixed assets, executive compensation, lease commitments and dividend payments.

5. CAPITAL STOCK

a) Options

As at December 31, 1979, 128,000 common shares were reserved for possible issue under a Key Employees' Stock Option Plan, approved in May of 1979. These options may be exercised at a price of \$2.52 per share in equal annual amounts for six years from March 15, 1980. Options not exercised in one year may be exercised in subsequent years to March 15, 1986.

b) Earnings per share

The exercise of all outstanding options would result in fully diluted earnings per share as follows:

Before extraordinary income	\$.57
Net earnings	\$1.07

6. INCOME TAXES

At December 31, 1979, loss carry forwards for income tax purposes of approximately \$1,150,000 are available for deduction against future profits. These loss carry forwards expire as follows:

1982	\$ 970,000
1983	180,000
	<u>\$1,150,000</u>

7. EXTRAORDINARY INCOME

	1979	1978
Reduction in current income taxes as a result of loss carry forward	\$1,253,000	\$ 815,000
Reduction of loss on disposal of Forest Products division	—	114,000
	<u>\$1,253,000</u>	<u>\$ 929,000</u>

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total remuneration paid or payable by the Company and its subsidiaries to its directors and senior officers amounted to \$602,000 in 1979 and \$344,000 in 1978.

9. PENSION PLANS

Pension costs, including amounts for compulsory government pension plans, were \$637,000 in 1979 and \$510,000 in 1978. These amounts include current service costs and payments on account of the unfunded liability in respect of past service.

Based on the most recent actuarial reviews, the unfunded liability for past service at December 31, 1979 amounted to approximately \$550,000.

10. LONG TERM LEASES

The Company is committed under long term leases with various expiry dates to 1995. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately \$560,000 annually.

